

INCOME CALCULATION FOR DETERMINING ELIGIBILITY FOR HOMEBUYER ASSISTANCE ACTIVITIES UNDER PART 5 DEFINITION

HOME Program Webinar

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Outline

- Definitions
- Income Inclusions & Exclusions
- Asset Inclusions & Exclusions
- Income Verification
- Calculating Income
- Sample Calculations

Definitions

Definition: The Part 5 definition of annual income is the gross amount of income of all adult household members that is anticipated to be received during the coming 12-month period. The definition of annual income found at 24 CFR Part 5 is used by a variety of Federal programs, including:

- the HOME Investment Partnerships Program,
- the Community Development Block Grant Program,
- the Section 8 Program,
- public housing programs, and
- Low Income Housing Tax Credit Program

Income: Income of all adult household members must be counted and must be projected in the future - *see income exclusions for exceptions on whose income doesn't count*

- Must use current circumstances to anticipate annual income
 - Exception: When documentation is provided that current circumstances are about to change (i.e. end of unemployment)
- Must examine source documents to determine annual income – 2 consecutive month's worth of income
 - Determine when paid (hourly, weekly, bi-weekly, monthly) **and** with or without overtime, bonuses, tips
 - Determine if pay increase is expected

Income Inclusions

- The following are included in income
 - Income from wages, salaries, tips, etc.
 - Business Income
 - Interest & Dividend Income
 - Retirement & Insurance Income
 - Unemployment & Disability Income
 - Welfare Assistance
 - Alimony, Child Support, & Gift Income
 - Armed Forces Income

Source:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehousing/training/web/calculator/definitions/part

Income Exclusions

The following are excluded from income

- Income of children under age 18
- Foster care payments received for children or adults
- Lump sum inheritance and insurance income
- Medical expense reimbursements
- Income of live-in aides
- Certain increases in income for disabled persons
- Student financial aid
- Armed forces hostile fire pay
- Gifts – temporary, sporadic & nonrecurring
- Reparations
- Income from full-time students
 - All earnings in excess of \$480 for those 18 or older
- Adoption assistance payments
- Deferred periodic & lump sum payments of Social security & SSI income
- Property tax refunds
- Home care assistance paid by a state agency
- Other federal exclusions
- Self Sufficiency Program income

Source: http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehousing/training/web/calculator/definitions/part5

Asset Inclusions

- Cash held in savings accounts, checking accounts, safe deposit boxes, homes, etc. For savings accounts, use the current balance. For checking accounts, use the average 6-month balance.
- Cash value of revocable trusts available to the applicant.
- Equity in rental property or other capital investments.
- Cash value of stocks, bonds, Treasury bills, certificates of deposit and money market accounts.
- Individual retirement and Keogh accounts (even though withdrawal would result in a penalty).
- Retirement and pension funds.
- Cash value of life insurance policies available to the individual before death (e.g., surrender value of a whole life or universal life policy).
- Personal property held as an investment such as gems, jewelry, coin collections, antique cars, etc.
- Lump sum or one-time receipts, such as inheritances, capital gains, lottery winnings, victim's restitution, insurance settlements and other amounts not intended as periodic payments.
- Mortgages or deeds of trust held by an applicant.

Source:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehousing/training/web/calculator/definitions/treatment/inclusions

Asset Exclusions

- Necessary personal property, except as noted in Inclusions, such as clothing, furniture, cars and vehicles specially equipped for persons with disabilities.
- Interest in Indian trust lands.
- Assets not effectively owned by the applicant. That is, when assets are held in an individual's name, but the assets and any income they earn accrue to the benefit of someone else who is not a member of the household and that other person is responsible for income taxes incurred on income generated by the asset.
- Equity in cooperatives in which the family lives.
- Assets not accessible to and that provide no income for the applicant.
- Term life insurance policies (i.e., where there is no cash value).
- Assets that are part of an active business. "Business" does not include rental of properties that are held as an investment and not a main occupation.

Source:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehousing/training/web/calculator/definitions/treatment/inclusions

Income Verification

HOME regulations at 24 CFR 92.203(a) require that income eligibility of all applicants be determined by examining source documentation which provides evidence of annual income, such as:

- Wage statements
- Interest statements
- Pension statements

Documentation of income must contain sufficient information to determine:

- How often person is paid
- Any scheduled increases in pay
- Any projected overtime hours
- Any projected bonuses

Third-Party Verification

Third-party verifications provide independent verification of information as well as providing information to determine if any changes to current circumstances are anticipated.

Examples of third parties are:

- Employers
- Banks
- Social Security Administration

NOTE: If third-party provider charges a fee to provide the information, it is an eligible soft cost – Applicant **must not** be required to pay for the verification as a condition of receiving the homebuyer assistance

Sample Forms are available from HUD website at:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehousing/library/forms

Comparing Annual Income to Published Income Limits

Steps for comparing annual income to published income limits

1. Determine household size
 - Certain persons are not considered household members:
 - Foster children
 - Foster adults
 - Live-in aides
 - Children of live-in aides
 - Children subject to a shared custody agreement that don't reside at least 50% of the time in the household
2. Compare to HUD income limits located at:
<http://www.hud.gov/offices/cpd/affordablehousing/programs/home/limits/income/>
- To compare a household's annual income to the HUD published income limits, follow these steps:
 1. Find the geographic area in which the home being purchased is located
 2. Find the column that corresponds to the number of persons to be counted in household
 3. Compare the verified income of the household with the income limit for that household size – can't exceed Low Income (80% AMI) limits

Timing of Income Certification

- Households receiving HOME assistance must be income eligible at the time assistance is provided
- Verification can't be older than 6 months prior to receipt of assistance – otherwise you must re-verify income

Sample Calculations

- Handout #1 - Calculating income with 24 pay periods vs. 26 pay periods
- Handout #2 - Calculating Income with Sample Form 1 - Calculating Assets under \$5,000
- Handout #3 - Calculating Income with Sample Form 2 - Calculating Assets over \$5,000 using imputed income

Questions?